

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 IO-11 ISO-00 COME-00 STR-04 L-03 H-02

AGR-05 CIAE-00 INR-07 LAB-04 NSAE-00 SP-02 TRSE-00

CIEP-01 FRB-03 OMB-01 NSC-05 SS-15 /077 W

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R 131820Z FEB 76

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 333

INFO US MISSION GENEVA 108

C O N F I D E N T I A L SECTION 1 OF 2 SAN SALVADOR 0800

GENEVA FOR PHELAN

E.O. 11652: GDS

TAGS: ETRD, ES, US

SUBJECT: TEXTILES

REF: SAN SALVADOR 167

STATE 14638

1. FOLLOWING IS POST'S ASSESSMENT OF TACTICAL SITUATION ON TEXTILE NEGOTIATION. IT IS NECESSARILY WRITTEN FROM LOCAL POINT OF VIEW SINCE WE ARE NOT AWARE OF BROADER CONSIDERATIONS WHICH MAY AFFECT U.S. POSITION.
  2. WE DO NOT SEE GOES AS BEING UNDER PRESSURE TO CONCLUDE A BILATERAL AGREEMENT. ON THE CONTRARY, GOES MOVE TO GENEVA AND SUBSEQUENT WITHDRAWAL OF US ARTICLE III NOTIFICATION SEEN HERE AS VICTORY FOR HARD LINE TACTICS ESPOUSED BY ALFREDO MILIAN, DIRECTOR OF INSTITUTO SALVADORENO DE COMERCIO EXTERIOR (ISCE). FOREIGN MINISTRY, WHICH WE BELIEVE WOULD HAVE PREFERRED A BILATERAL AGREEMENT, HAS HAD TO ADMIT IT WAS WRONG. GENERAL CONCEPT BEHIND HARD LINE APPROACH IS THAT IF U.S. ECONOMIC RECOVERY CONTINUES AND INCLUDES TEXTILE INDUSTRY, U.S. WOULD BE WILLING TO GIVE EL SALVADOR A MUCH BETTER DEAL IN A BILATERAL. ALSO THERE IS SOME ELEMENT OF FEELING THAT IN ORDER TO GET ANYTHING OUT OF THE US IT IS NECESSARY TO "HIT THEM HARD".
  3. ADDITIONALLY, AS PREVIOUSLY REPORTED, WE BELIEVE THE GOES
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INTENDS NOT TO CONCLUDE A BILATERAL UNTIL SIGNIFICANT (IN

SALVADORAN TERMS) NEW INVESTMENT GOES INTO PRODUCTION, PRESUM-  
ABLY DURING THE COMING YEAR. WE BELIEVE MILIAN'S PROPOSAL  
REPORTED REF. 1 IS AN EFFORT TO REACH A

MODUS VIVENDI WITH THE U.S. UNTIL THIS PROCESS IS COMPLETED.

ALSO, GOES OFFICIALS CLOSE TO TEXTILE NEGOTIATIONS BELIEVE  
USG IS RECONSIDERING ITS POLICY TOWARD SMALL PRODUCERS SUCH  
AS EL SALVADOR AND IS EVOLVING TOWARD MORE GENEROUS TREATMENT  
AND RECOGNITION OF PRINCIPLE THAT RELATIVELY RAPID  
GROWTH OF SMALL PRODUCERS CAN BE HELD TO BE NOT DISRUPTIVE  
TO US MARKET. THEY APPEAR TO BELIEVE US WAS UNWILLING TO SEE  
QUESTION CONSIDERED IN GENEVA AND SO BACKED DOWN.

4. SOME ELEMENTS OF THE SALVADORAN TEXTILE INDUSTRY ARE APPRE-  
HENSIVE AND DISTRUSTFUL OF ILIAN AND ISCE. OUR IMPRESSION, CON-  
FIRMED BY ONE OF THE LARGEST DRAWBACK OPERATORS, IS THAT COMMU-  
NICATION BETWEEN THE INDUSTRY AND THE INSTITUTE IS POOR, WITH  
INDUSTRY OFTEN SUMMONED AT LAST MINUTE FOR CONSULTATION AFTER  
DECISIONS HAVE BEEN MADE. THIS SITUATION IS NOT UNIQUE TO  
ISCE; SALVADORAN GOVERNMENT BUREAUCRAT - PRIVATE SECTOR RELATIONS  
LEAVE MUCH TO BE DESIRED WITH BOTH SIDES OFTEN SHARING AN ILL-  
CONCEALED CONTEMPT FOR ONE ANOTHER. ON THE OTHER HAND, A SOURCE  
OPPOSED TO MILIAN'S HANDLING OF THE TEXTILE AFFAIR HAS TOLD US  
THAT A SURVEY OF THE INDUSTRY HE MADE SHOWED GENERAL SUPPORT FOR  
MILIAN'S LINE. SOME ELEMENTS OF THE INDUSTRY, PARTICULARLY DRAW-  
BACK OPERATORS, ARE FEARFUL THAT MILIAN WILL PUSH U.S. TOO FAR  
AND PROVOKE TIGHTER RESTRICTIONS THAN COULD HAVE BEEN OBTAINED  
UNDER BILATERAL. WE ARE UNCERTAIN OF INDUSTRY'S ABILITY TO  
INFLUENCE GOES NEGOTIATING POSITION, BUT BELIEVE IT IS DEFINITELY  
WEAKER DURING CURRENT PERIOD OF APPARENT SUCCESS OF HARD LINE.

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R 131820Z FEB 76

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 334

INFO UU MISSION GENEVA1109

C O N F I D E N T I A L SECTION 2 OF 2 SAN SALVADOR 0800

GENEVA FOR PHELAN

5. OBVIOUSLY A NUMBER OF APPROACHES ARE POSSIBLE IN THE PRESENT SITUATION AND THE ONE CHOSEN WILL DEPEND ON WASHINGTON'S READING OF TOTAL TEXTILE SITUATION. THE FOLLOWING COMMENTS ASSESS THE LOCAL IMPACT OF SOME POSSIBILITIES.

A. SPECIAL TREATMENT FOR EL SALVADOR.

SPECIAL TREATMENT FOR EL SALVADOR IN THE TEXTIWE AREA WOULD INVOLVE MINIMAL ECONOMIC COST TO THE U.S., IVEN THE SMALL VOLUME OF SALVADORAN PRODUCTION AND EXPORTS RELATIVE TO THE U.S. MARKET. IT COULD PROBABLY BE JUSTIFIED ON POLITICAL GROUNDS, (E.G., AS QUID PRO QUO FOR THEIR SUPPORT ON KEY ISSUES IN INTERNATIONAL FORA)

BUT WOULD PRESUMABLY HAVE TO BE RATIONALIZED IN SOME WAY TO PREVENT ITS IMPACTING UNFAVORABLY ON OUR NEGOTIATIONS WITH OTHER SMALL PRODUCERS.

OBVIOUSLY WE WOULD WANT THE GOES TO GIVE US CREDIT FOR SUCH ACTION IF WE TOOK IT AT THE PRESENT TIME, WITH THE IMRESSION OF U.S RETREAT PREDOMINANT, WE MIGHT WELL BE THOUGHT TO BE PUTTING BEST FACE ON DEFEAT.

B. GO ALONG WITH MILIAN'S SUGGESTION. THIS IS PROBABLY THE PREFERRED ALTERNATIVE OF THE GOES AT THE PRESENT TIME. WE WOULD HAVE A HANDLE ON THEIR PLANS AND MIGHT BE ABLE TO AVOID EXPLOSIVE GROWTH IN SENSITIVE AREAS. BOTH GOES AND INDUSTRY HAVE CONVEYED TO EMBASSY THAT MINISTRY OF ECONOMY HAS WORKED OUT AN INFORMAL CONFIDENTIAL

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SYSTEM OF REGULATING EXPORTS. THIS SYSTEM COMBINED WITH AN ACCEPTANCE ON OQR PART OF MILIAN'S IDEA WOULD FURTHER ERODE POSITION OF GOES AND PRIVATE SECTOR ELEMENTS IN FAVOR OF BILATERAL SOONER RATHER THAN LATEJ. ONCE AGAIN THE GOES HARD LINE WOULD BE SEEN TO HAVE PREVAILED. ALSO, WHILE GOES OFFICIALS HAVE ASSURED US THAT THEY ARE DISCOURAGING NEW INVESTMENT IN TEXTILE DRAWBACK INDUSTRIES, OTHERS HAVE TOLD US THAT THEY ARE SEEKING SUCH INVESTMENT;

C A U.S. HARD LINE. IF JUSTIFIED; WE COULD IMPOSE UNULATERAL RESTRICTIONS IN ONE OR MORE SENSITIVE CATEGORIES. WE COULD ALSO NEEDLE THE GOES IN SMALLER -6 , WHICH WE ARE NOW APPARENTLY DOING (E.G., DENYING OPIC INSURANCE FOR TEXTILE PROJECTS). IN THE CASE OF ART. III RESTRICTIONS, WE BELIEVE THE GOES WOULD GO TO GENEVA AGAIN. DEPENDING ON HOW MUCH THE RESTRCTIONS HURT THE INDUSTRY, SUPPORT MIGHT GROW FOR REACHING A BILATERAL WITH THE U.S.

D. BACK TO THE NEGOTIATING TABLE. WE COULD MAKE A MORE GENEROUS OFFER ON A BILATERAL. THE GOES MIGHT SETTLE FOR SOMETHING BETWEEN THEIR LAST OFFER AND OURS, ALTHOUGH AS NOTED ABOVE THEY SEE IT IN THEIR INTEREST TO HOWD OUT FOR THE MAXIMUM TIME

WITHOUT A BILATERAL AND THUS WOULD PROBABLY PROVE HARD, POSSIBLY IMPOSSIBLE BARGAINERS.

6 AS A FINAL NOTE, WE BELIEVE A GOOD DEAL OF THE PRESENT SITUATION IS DUE TO THE FACT THAT NO DIRE CONSEQUENCES HAVE RESULTED FROM THE GOES' REFUSAL TO SIGN THE AGREEMENT INITIALED IN JAN., 1975 OR FROM THE U.S. ARTICLE III NOTE OF LAST JULY AND THE BREAKDOWN OF THE SUBSEQUENT DISCUSSIONS. I PERSONALLY URGED THE SERIOUSNESS OF THE SITUATION ON THE FOREIGN MINISTER ON MORE THAN ONE OCCASION, IN RESPONSE TO INSTRUCTIONS, AND SIMILAR REPRESENTATIONS WERE MADE TO OTHER GOES OFFICIALS. THE IMPRESSION, UNFORTUNATELY, IS THAT WE WERE SEEN TO HAVE BEEN BLUFFING AND TO HAVE BEEN CALLED. I BELIEVE WE HAVE TO BEAR THIS FACT IN MIND IN CONSIDERING ANY FUTURE ACTION ON TEXTILES.  
CAMPBELL

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